INTRODUCTORY STATEMENT

# PRESS CONFERENCE

## Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 13 December 2018

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the President of the Eurogroup, Mr Centeno.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **non-standard monetary policy measures**, our net purchases under the asset purchase programme (APP) will end in December 2018. At the same time, we are enhancing our forward guidance on reinvestment. Accordingly, we intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

While incoming information has been weaker than expected, reflecting softer external demand but also some country and sector-specific factors, the underlying strength of domestic demand continues to underpin the euro area expansion and gradually rising inflation pressures. This supports our confidence that the sustained convergence of inflation to our aim will proceed and will be maintained even after the end of our net asset purchases. At the same time, uncertainties related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent. Significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. Our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets, continues to provide the necessary degree of monetary accommodation for the sustained convergence of inflation to our aim. In any event, the Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.2%, quarter on quarter, in the third quarter of 2018, following growth of 0.4% in the previous two quarters. The latest data and survey results have been weaker than expected, reflecting a diminishing contribution from external demand and some country and sector-specific factors. While some of these factors are likely to unwind, this may suggest some slower growth momentum ahead. At the same time, domestic demand, also backed by our accommodative monetary policy stance, continues to underpin the economic expansion in the euro area. The strength of the labour market, as reflected in ongoing employment gains and rising wages, still supports private consumption. Moreover, business investment is benefiting from domestic demand, favourable financing conditions and improving balance sheets. Residential investment remains robust. In addition, the expansion in global activity is still expected to continue, supporting euro area exports, although at a slower pace.

This assessment is broadly reflected in the December 2018 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.9% in 2018, 1.7% in 2019, 1.7% in 2020 and 1.5% in 2021. Compared with the September 2018 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised slightly down in 2018 and 2019.

The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. However, the balance of risks is moving to the downside owing to the persistence of uncertainties related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and financial market volatility.

According to Eurostat’s flash estimate, euro area annual HICP inflation declined to 2.0% in November 2018, from 2.2% in October, reflecting mainly a decline in energy inflation. On the basis of current futures prices for oil, headline inflation is likely to decrease over the coming months. Measures of underlying inflation remain generally muted, but domestic cost pressures are continuing to strengthen and broaden amid high levels of capacity utilisation and tightening labour markets, which is pushing up wage growth. Looking ahead, underlying inflation is expected to increase over the medium term, supported by our monetary policy measures, the ongoing economic expansion and rising wage growth.

This assessment is also broadly reflected in the December 2018 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.8% in 2018, 1.6% in 2019, 1.7% in 2020 and 1.8% in 2021. Compared with the September 2018 ECB staff macroeconomic projections, the outlook for HICP inflation has been revised slightly up for 2018 and down for 2019.

Turning to the **monetary analysis**, broad money (M3) growth stood at 3.9% in October 2018, after 3.6% in September. Apart from some volatility in monthly flows, M3 growth continues to be supported by bank credit creation. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

In line with the upward trend observed since the beginning of 2014, the growth of loans to the private sector continues to support the economic expansion. The annual growth rate of loans to non-financial corporations stood at 3.9% in October 2018, after 4.3% in September, while the annual growth rate of loans to households remained unchanged at 3.2%. The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – in particular for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the Governing Council reiterates the need for rebuilding fiscal buffers. This is particularly important in countries where government debt is high and for which full adherence to the Stability and Growth Pact is critical for safeguarding sound fiscal positions. Likewise, the transparent and consistent implementation of the EU's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

Further information on the technical parameters of the reinvestments will be released at 15:30 CET on the ECB's website.

We are now at your disposal for questions.

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**When it comes to flexibility of the reinvestments, perhaps you could let us know how flexible the investments will be and whether you are planning to phase in the new capital key or not. Then I would like to ask you quite broadly about next year's economic risks, which are the risks you are primarily focusing on, which could be big-event risks also for your outlook?**

Draghi: On the first question I think you have to wait for the press release at the end of this press conference. But what I can do is to read you one of the decision-making points which is the one you are probably asking for. The Governing Council decides that under the PSPP, the public sector purchase programme, as a rule redemptions will be reinvested in the jurisdiction in which principal repayments are made, but the portfolio allocation across jurisdictions will continue to be adjusted with a view to bringing the share of the PSPP portfolio into closer alignment with the respective national central bank subscription to the ECB capital key. That's what I can read to you now; the rest you will learn from the press release.

Now, your second question was about the risk. Well, in a sense that was the focal point of the Governing Council discussion; what sort of assessment would the Governing Council give about. And if I had to draw a conclusion about the sense that transpired from the discussion, I would summarise it with just a few words; namely, continuing confidence with increasing caution. I just happened to read it before coming here; I will quote to you the results of a survey with small- and medium-sized enterprises in a moment. Basically, they seem to say the same thing. So first of all when we look at what it is today, first of all we see that monetary policy remains very accommodative. As a matter of fact, I think there is some sort of confusion here about termination. The APP is not terminating; it continues. It does continue because we are committed to maintaining the stock for an extended period of time as it is. On top of that we have announced our forward guidance, we can come back on that.

When you look at the economy, well, you still see the drivers of this recovery are still in place. Consumption continues to grow, basically supported by the increase in real disposable income, which, if I am not mistaken, is at the historical high since six years or something, and households' wealth. Business investments continue to grow, residential investment, as I said in the IS [introductory statement] is robust. External demand has gone down but still grows. Everything, all this when we look at all these drivers of the recovery, yes, it's true, it's just weaker. It's not just one-off; it's been weaker for a while now and that's in a sense the discussion – the sense of the discussion.

Clearly, we ask ourselves first of all how quick this is, how weak this is and what causes this weakness? We gave some explanations. You remember we started discussing this last time. There are certain one-off factors in some countries, in some sectors which probably are transient, but there is also a permanent component to this, which is the landing of the eurozone economy on a path, closer to potential. So we had in 2017 a pretty unusual year and so now there is some landing on a closer path to potential.

Now, what are the causes for this? Well, the introductory statement quoted uncertainty: geopolitical uncertainty, emerging market economies' vulnerabilities, financial markets' volatility and perhaps another cause. The point of this is that – yes, the threat of protectionism is the other. The other point that was discussed; all these are specific factors of uncertainty but generally speaking, these factors may change. For example, the trade situation based on the latest statements is probably better than it was two months ago. Some emerging market vulnerabilities now seem to be less urgent or less dangerous than they were two months ago. But in the meantime, others are looming up so the overall environment, the overall atmosphere has become one characterised by increased general uncertainty, which takes the shape now and then of different phenomena.

I think this is at least considered by the Governing Council one of the reasons, if not the main reason, for this weaker data. You can see this because if you look back when we took this decision that we would expect to terminate the APP, the net APP purchase now, back in June, well, since then what you see is basically financing conditions that have been by and large the same, if not even more accommodative, with interest rates which went down, in fact, but risk premium has increased. That's what is at the root of some of the declines in asset prices. That's the sort of discussion and it's a discussion, as I said, continued confidence with increasing caution.

It's interesting in our usual periodic survey that we do with small- and medium-sized enterprises, now this survey terminates in September. They say that basically, the results are consistent with economic expansion, which continues to be supported by accommodative financing conditions. Nevertheless SMEs signalled some rising concerns on their business environment. A large share of SMEs reported higher turnover, so positive news. But the percentage of firms indicating increasing profits declined. You see, all this is news of lower growth but not low growth. This was the key point. The other results are basically consistent with this two-phased assessment of the situation.

**I have two questions about the enhanced forward guidance on reinvestments that you have published today. The first one is, you say that reinvestments will continue in full for an extended period after the first increase in rate hikes. Can you give some more details about how long this extended period is? Generally it is understood by investors that reinvestments**